

June 24, 2002

Councilman Roy A. Burrell
Chairman, Shreveport City Council

Dear Councilman Burrell:

Subject: IAR 220202-02 - Audit of Contract Compliance for Harrah's Casino - Years 2000 and 2001

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

jm

**EXECUTIVE SUMMARY
AUDIT OF CONTRACT COMPLIANCE
FOR HARRAH'S CASINO
YEARS 2000 AND 2001
INTERNAL AUDIT REPORT (IAR) 220202-02**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

On March 10, 1998, the City entered into an amended lease agreement with Red River Entertainment (Harrah's). Harrah's was chosen over other respondents largely because of its corporate reputation, commitment to the community, and commitment to utilization of local and minority employees and businesses. The end of 2001 was Harrah's eighth year of operation.

This report covers the review of operations under the lease agreement for years 2000 and 2001.

OVERVIEW OF SIGNIFICANT ISSUES

Based on the results of our audit, we believe that an adequate system of control is in existence over the areas examined with the exception of the findings specifically noted. We believe that Harrah's is making good faith efforts to meet goals of the lease agreement. We also believe that management could enhance the control environment by addressing the following:

- The procedure to certify vendors as minority/women owned should be strengthened.
- Monthly payments to the City should be reviewed for over and under payments.
- The Equal Opportunity Employment and Procurement Advisory Council should meet on a periodic basis.

INDEX

Executive Summary	1
Index	2
Objectives	3
Scope and Methodology	3
Background	3
Conclusions/Findings/Recommendations	3
Findings	
1. Verification of Minority/Women-Owned Vendor Status	4
2. Accuracy of Monthly Payments.....	5
3. Advisory Council Meetings	6

**AUDIT OF
CONTRACT COMPLIANCE
FOR HARRAH'S CASINO
YEARS 2000 AND 2001
INTERNAL AUDIT REPORT (IAR) 220202-02**

OBJECTIVES

We have completed an audit of the ground lease dated March 10, 1998, between the City as landlord, and the Red River Entertainment (Harrah's) as tenant. Our objectives were to determine whether, as defined in the lease agreement, the City received the following from the tenant:

- The correct amount of fixed rent, percentage rent, and additional rent;
- The correct amount of boarding fees; and
- The quarterly progress reports on the tenant's Equal Opportunity Employment and Affirmative Action Plan.

SCOPE AND METHODOLOGY

Our audit was performed in accordance with generally accepted governmental auditing standards. The scope of the study of internal control was limited to the general controls surrounding our objectives for the operating years 2000 and 2001. Audit procedures applied included the following:

- Reviewing applicable records and documents.
- Interviewing appropriate operating personnel and management.

BACKGROUND

On March 10, 1998, the City entered into an amended lease agreement with Red River Entertainment (Harrah's). Harrah's was chosen over other respondents largely because of its corporate reputation, commitment to the community, and commitment to utilization of local and minority employees and businesses. The end of 2001 was Harrah's eighth year of operation.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office expresses appreciation to the management and personnel of Harrah's for their cooperation and assistance provided during our audit. Based on the results of our audit, we determined that the City was paid per the terms of the agreement.

1. Verification of Minority/Women-Owned Vendor Status

Criteria: As a measure of Harrah's accomplishments toward minority/women vendor procurement, Harrah's submits a quarterly report to the City detailing minority and women business enterprise (M/WBE) vendor procurement. Reliance is placed on the accuracy of this report and the surrounding control environment to determine Harrah's compliance with M/WBE procurement goals.

Condition: Harrah's utilizes the vendor's notarized affidavit to ascertain M/WBE status. There is no documented verification of the vendor's status, i.e., review of ownership documentation, site visits, etc.

Effect: The control environment surrounding the verification of a vendor's minority status does not provide assurance as to the vendor's M/WBE qualifications.

Cause: Harrah's vendor verification process is designed to meet the state's M/WBE requirements.

Recommendation: We recommend that Harrah's and city management consider the following possibilities of verifying vendors as M/WBE:

- utilizing the City of Shreveport's M/WBE vendor program, whereby vendors could be evaluated for minority/female business status;
- Harrah's could adopt a formal process of evaluating a vendor's minority status. This process, at a minimum, should include documented site visits and review of appropriate documentation;
- contract a consultant to perform M/WBE verifications with the understanding that the criteria for M/WBE status be approved by both the City and Harrah's.

Management's Plan of Action: Harrah's is very proud of our accomplishments and we continue to develop and foster relationships with minority-owned and women-owned businesses. Harrah's requires each new vendor to provide a notarized affidavit as to ownership structure in order to determine minority-owned or woman-owned status. In addition, we have required these vendors to update their affidavits in 2002. We believe the certification system in place is sufficient to satisfy reporting requirements. Harrah's will continue to improve their process to ensure compliance without placing undue burden on either Harrah's or our minority-owned or women-owned vendors.

Timetable:

2. Monthly Payments

Criteria: Revenues are paid to the City of Shreveport based on the net gaming proceeds, adjusted gross revenues, and fixed rent. Based upon terms stipulated in the agreement, Harrah's is required to remit 3.2% of net gaming proceeds, 1% of adjusted gross revenues, and \$402,500 per annum fixed rent to the City.

Harrah's also is required to undergo quarterly audits of its net gaming proceeds by the Louisiana State Police Gaming Unit for the Louisiana Gaming Control Board and annual audits of its adjusted gross revenues and fixed rent by an independent auditing firm.

Condition: For the time periods of years 2000 and 2001, a comparison of monies received by City of Shreveport to amounts reported on Harrah's audited reports indicated payments were timely made and documented. However, the City was underpaid \$3,099.24, based upon a recalculated percentage of net gaming proceeds as presented in the quarterly audited reports for the State Gaming Control Board and adjusted gross revenues as presented in the annual audit by an independent auditing firm.

Effect: Possibility of over payments and under payments continuing undetected.

Cause: There is no procedure to reconcile the audited reports to amounts paid to the City.

Recommendation: We recommend that management implement a procedure whereby revenues from Harrah's audited quarterly and annual reports are compared to payments received by the City during that time period for over payments and under payments. Subsequent monthly payments should be adjusted accordingly. We further recommend that the underpayment to the City of \$3,099.24 be adjusted in the next monthly payment.

Management's Plan of Action: The adjustment of Revenue due to the City of Shreveport for \$3,099.24 was sent May of 2002. We will ensure that the Monthly Gaming Revenues and the City calculations are reconciled to the quarterly revenue audits performed by our external auditors.

Timetable: Immediately.

3. Advisory Council Meetings

Criteria: Article XXXIV "Equal Opportunity Employment and Affirmative Action Plan" of the lease agreement between Harrah's and the City establishes many procurement and employment initiatives. As part of the control system to help ensure that the intent of the contract is being achieved, the Equal Opportunity Employment and Procurement Advisory Council (the Advisory Council) was created. The Advisory Council had been scheduled to meet on a quarterly basis.

Condition: A review of the Advisory Council meetings indicated that the Advisory Council met three times in year 2000 and twice in year 2001.

Effect: Procurement and employment goals may not be adequately discussed or addressed.

Cause: Management asserts difficulty in coordinating meetings.

Recommendation: We recommend that the Advisory Council meet on a regular basis in order to discuss procurement and employment goals.

Management's Plan of Action: At the April 10 Advisory Council meeting, Harrah's pre-established a quarterly meeting calendar for days and meeting times for 2002 to prevent scheduling conflicts and ensure timely communication with the Advisory Council.

Timetable:

Prepared by:

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Staff Auditor

Approved by:

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City Internal Auditor

BP:jm

c: Mayor
CAO
City Council
Clerk of Council
City Attorney
External Auditor